

**VIRGINIA PORT AUTHORITY**  
**SINGLE AUDIT AND COMPLIANCE REPORTS**  
**YEAR ENDED JUNE 30, 2016**



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ASSURANCE, TAX & ADVISORY SERVICES

# **VIRGINIA PORT AUTHORITY**

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# VIRGINIA PORT AUTHORITY

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

Federal Grantor/Program Title	Federal CFDA Number	Pass-through Number	Subrecipients	Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY:				
Pass-through Payments:				
Virginia Department of Emergency Management:				
Homeland Security Grant Program	97.067	Not Provided	\$ -	\$ 133,333
Non-Profit Security Program	97.008	Not Provided	-	652
Disaster Grants Public Assistance (Presidentially Declared Disasters)	97.036	Not Provided		218,156
Port Security Grant Program	97.056	Not Provided	-	<u>377,625</u>
<b>Total Department of Homeland Security</b>				<u>729,766</u>
U.S. DEPARTMENT OF TRANSPORTATION:				
Direct Payment:				
TIGER Discretionary Grant	20.933	N/A	-	4,855,849
Pass-through Payments:				
Virginia Department of Transportation:				
America's Marine Highway Grant	20.816	Not Provided	-	700,000
Highway Planning and Construction	20.205	Not Provided	-	<u>4,983,863</u>
<b>Total Department of Transportation</b>				<u>10,539,712</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY:				
Direct Payment:				
National Clean Diesel Emissions Reduction Program	66.039	N/A	-	<u>750,000</u>
<b>Total Federal Expenditures</b>				<u><u>\$ 12,019,478</u></u>

# VIRGINIA PORT AUTHORITY

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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### Note 1. Basis of Presentation and Summary of Significant Accounting Policies

#### A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Virginia Port Authority (the Authority) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position or changes in net position of the Authority.

*Federal Financial Assistance* – The Single Audit Act Amendments of 1996 (Public Law 104-156) and Uniform Guidance define federal financial assistance as grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations or other assistance. Federal financial assistance does not include direct federal cash assistance to individuals.

*Pass-through Payments* – Assistance received in a pass-through relationship from entities other than the Federal government is classified as pass-through payments on the Schedule of Expenditures of Federal Awards.

*Direct Payments* – Assistance received directly from the Federal government is classified as direct payments on the Schedule of Expenditures of Federal Awards.

*Major Programs* – The Single Audit Act Amendments of 1996 and Uniform Guidance establish the criteria to be used in defining major programs. The major program for the Authority was determined using a risk-based approach in accordance with Uniform Guidance.

*Catalog of Federal Domestic Assistance* – The Catalog of Federal Domestic Assistance (CFDA) is a government-wide compendium of individual federal programs. Each program included in the catalog is assigned a five-digit program identification number (CFDA Number), which is reflected in the accompanying schedule.

#### B. Summary of Significant Accounting Policies

The Authority has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Pass-through identifying numbers are presented where available.

## **VIRGINIA PORT AUTHORITY**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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#### **Note 2. Relationship to the Basic Financial Statements**

For fiscal year 2016, the Authority recognized amounts in the Schedule of Expenditures of Federal Awards (SEFA) associated with prior year expenditures. Expenditures should be recognized in the fiscal year in which they were incurred for reporting purposes. In the current fiscal year, \$102,248 of prior year expenditures related to the Homeland Security Grant Program (CFDA #97.067), \$218,156 of prior year expenditures related to the Disaster Grants Public Assistance (CFDA #97.036), and \$700,000 of prior year expenditures related to the America's Marine Highway Grant (CFDA # 20.816) were included in the SEFA. The expenditures related to Homeland Security Grant Program and America's Marine Highway Grant were omitted from the prior year SEFA due to errors related to preparing the SEFA. The expenditures related to the Disaster Grants Public Assistance were not recorded on the SEFA in the prior fiscal year because the amount of federally reimbursed expenditures was not known until this fiscal year. These funds received related to Super Storm Sandy which occurred in 2012.



**INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

The Honorable Terry McAuliffe  
Governor of Virginia

The Honorable Robert D. Orrock, Sr.  
Chairman, Joint Legislative Audit  
and Review Commission

The Board of Commissioners  
Virginia Port Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of the Virginia Port Authority (Authority) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 26, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*PBMares, LLP*

Harrisonburg, Virginia  
October 26, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR FEDERAL PROGRAM AND  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

The Honorable Terry McAuliffe  
Governor of Virginia

The Honorable Robert D. Orrock, Sr.  
Chairman, Joint Legislative Audit  
and Review Commission

The Board of Commissioners  
Virginia Port Authority

**Report on Compliance for Each Major Federal Program**

We have audited the Virginia Port Authority's (the Authority) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2016. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.



## **Opinion on Each Major Federal Program**

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2016.

## **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2016-01. Our opinion on each major federal program is not modified with respect to this matter.

## **Authority's Response to Finding**

The Authority's response to the noncompliance finding identified in our audit as 2016-01 is described in the accompanying Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did identify a deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2016-01 that we consider to be a significant deficiency.

### **Authority's Response to Finding**

The Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the Authority as of and for the year ended June 30, 2016, and have issued our report thereon dated October 26, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*PBMares, LLP*

Harrisonburg, Virginia  
October 26, 2016

**VIRGINIA PORT AUTHORITY**

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2016**

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**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified	<u>      </u> Yes	<u>  √  </u> No
Significant deficiency identified	<u>      </u> Yes	<u>  √  </u> No
Noncompliance material to financial statements noted	<u>      </u> Yes	<u>  √  </u> No

**Federal awards**

Internal control over major programs:

Material weaknesses identified	<u>      </u> Yes	<u>  √  </u> No
Significant deficiencies identified	<u>  √  </u> Yes	<u>      </u> No

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(A)?	<u>  √  </u> Yes	<u>      </u> No
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Identification of major programs:

CFDA Number	Name of Federal Program
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U.S. Department of Transportation:

20.933	TIGER Discretionary Grant
20.205	Highway Planning and Construction

U.S. Environmental Protection Agency:

66.039	National Clean Diesel Emissions Reduction Program
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Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?	<u>      </u> Yes	<u>  √  </u> No
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2016**

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II. FINANCIAL STATEMENT FINDINGS

None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

**2016-01: Significant Deficiency Related to Properly Recording Federal Expenditures; Department of Transportation; Pass-through Payments CFDA #20.816; Department of Homeland Security; Pass-through Payments CFDA #97.067**

Criteria and Condition: Federal expenditures should be recorded as services are rendered or goods are received. Corresponding federal revenues should be recorded in the same period as these expenditures or at such time that all reimbursement requirements have been met.

Context: During the course of our audit of the Schedule of Expenditures of Federal Awards (SEFA), it was noted the Authority included amounts related to prior year expenditure activity totaling \$802,248. These expenditures, as well as the revenue, should have been recorded in the prior fiscal year.

Cause: Due to staff limitations and turnover in the position of grant accountant, the Authority failed to include expenditures related to federal grant activity on the prior year Schedule of Expenditures of Federal Awards.

Effect: As a result of the omission of the expenditures from the prior year SEFA, the Authority had to report expenditures related to prior year activity.

Questioned Costs: Undeterminable.

Recommendation: We recommend the Authority carefully review all activity related to federal grant expenditures to ensure all activity is recorded in the appropriate period.

Views of Responsible Officials: Management concurs with the findings.

## **VIRGINIA PORT AUTHORITY**

### **CORRECTIVE ACTION PLAN**

**Year Ended June 30, 2016**

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Identifying Number: 2016-01: Significant Deficiency Related to Properly Recording Federal Expenditures; Department of Transportation; Pass-through Payments CFDA #20.816; Department of Homeland Security; Pass-through Payments CFDA #97.067

Finding:

Federal expenditures were not recorded in the period in which expenses were incurred.

Corrective Action Taken or Planned:

The exception noted in this finding relates to a fiscal year 2015 cutoff issue whereby an expenditure incurred and recorded in the Company's ledger prior to June 30, 2015 was not included in the fiscal year 2015 SEFA. At the time, the Authority had experienced significant turnover, particularly in the position(s) responsible for the preparation and review of the fiscal year 2015 SEFA, which led to the audit finding described in 2016-01.

Our corrective action plan, as part of a continuing effort in place since November 2015, has included recruitment and assignment of appropriate personnel in conjunction with the realignment of roles and responsibilities to ensure the segregation of federal and state grant revenues, as well as conduct reviews of grant activity to produce a complete and accurate SEFA.

During fiscal year 2016 (December 2015), a Manager of Plant and Grant Funds with prior grant administration experience was hired and tasked with ensuring (1) the segregation of federal and state grant revenues in the Authority's general ledger, and (2) preparing an "interim SEFA" ahead of the end of the year in order to facilitate review. During the preparation of the fiscal year 2016 SEFA, certain expenditures related to fiscal year 2015 were noted and, in concurrence with the auditors, was included in the fiscal year 2016 SEFA with related footnote disclosure. While the effort to optimize the process of identifying and reporting expenditures will continue, management believes that, based on the work performed during the latter half of fiscal year 2016, the finding 2016-01 has been addressed.

## **VIRGINIA PORT AUTHORITY**

### **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**Year Ended June 30, 2016**

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#### **2015-01: Material Weakness Related to the Capitalization of Interest**

##### Finding

During the course of our audit of construction in progress, it was noted the Authority had improperly calculated the amount of capitalized interest associated with capital projects funded with debt proceeds. In calculating the amount of interest to capitalize, the Authority failed to apply the borrowing rate to the cumulative expenditures. In calculating capitalized interest, the Authority based its calculation on current year expenditures rather than the cumulative expenditures of each project.

##### Corrective Action Taken or Planned

The Authority has revised its policy to align directly with GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, Financial Accounting Standards Board (FASB) Statement No. 34, *Capitalization of Interest Cost*, and FASB Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*. In conjunction with the realignment of roles and responsibilities within the Finance Division, we implemented provisions to require review of interest capitalization at least quarterly and also consider performing the calculation of interest capitalization monthly depending on a cost/benefit analysis. This was fully implemented during 2016.

#### **2015-02: Significant Deficiency Related to Preparation of Schedule of Expenditures of Federal Awards**

##### Finding

In the process of performing our audit, we were not provided a complete and accurate SEFA and we also determined instances in which grant funding received was not properly presented in the SEFA. The SEFA provided at the commencement of the audit did not contain accurate expenditures incurred for fiscal year 2015 related to the Non-Profit Security Grant Program, Port Security Grant Program, and America’s Marine Highway Program. Not all grant expenditures were included in the SEFA, the expenditures included were not reported on an accrual basis, and the expenditures reported included non-federal matching funds. It was also noted federal funding received by the Authority had been commingled in accounts within the general ledger. Federal funding received related to the Hampton Roads Barge Operations and International Terminal Barge Service had been recorded in accounts in which other non-federal grant revenue was reflected. As a result of this commingling of grant sources, it was difficult to reconcile federal revenue and expenditures associated with the grant.

##### Corrective Action Taken or Planned

In conjunction with the realignment of roles and responsibilities within the Finance Division as described in Financial Statement Finding 2015-01, we will implement provisions to ensure the segregation of state and federal revenues. We will also require review and analysis of state and federal revenues at least quarterly. This was fully implemented during the first calendar quarter of 2016.